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CLARENCE N. WOOD
PRESIDENT

April 1, 2004

Docket No. R-1f81
Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington DC 20551

Dear Ms. Johnson:

As a supporter of the National Community Reinvestment Coalition, the Jane Addams Hull House Association urges you to withdraw the **proposed** changes to the Community Reinvestment Act (CRA) regulations. CRA **has** been instrumental in increasing **access** to homeownership, boosting economic development, and expanding small businesses in the nation's minority, immigrant, and low- and moderate-income communities.

Jane Addams Hull House Association, founded in 1889, recently conducted a study called *Minding The Gap – An Assessment of Racial Disparity in Metropolitan Chicago*. The proposed changes to **CRA** would only serve to broaden the **large gaps in** income and wealth that already **exist**.

Your proposed changes are contrary to the CRA statute because they **will** halt the progress **made** in community reinvestment. The proposed CRA changes will thwart the Administration's goals of improving the economic status of immigrants and creating 5.5 million new minority homeowners by the end of the **decade**. Instead, the proposed CRA changes would facilitate predatory lending and reduce the ability of the general public to hold financial institutions accountable for compliance with consumer protection laws.

The proposed changes include three major elements: **1)** provide streamlined and cursory exams for banks with assets between \$250 million and \$500 million; **2)** establish a weak predatory lending compliance standard under CRA; and **3)** expand data collection and reporting for **small** business **and** home lending. The beneficial impacts of the third **proposal** are overwhelmed by the damage **imposed**

10 SOUTH
RIVERSIDE
PLAZA
CHICAGO, IL
60608



PHONE: 312.906.8600 ■ FAX: 312.906.8822 ■ FOUNDED 1889

A participant in the United Way/Crusade of Mercy

by the first two proposals. In addition, the federal banking agencies did not update procedures regarding affiliates and assessment areas in their proposal, and thus missed a vital opportunity to continue **CRA's** effectiveness.

Streamlined and Cursory Exams

Under the current **CRA** regulations, large banks with assets of at least **\$250** million are rated by performance evaluations that scrutinize their level of lending, investing, and services to low- and moderate-income communities. The proposed changes will eliminate the investment and service parts of the **CRA** exam for **banks** and thrifts **with** assets between \$250 and \$500 million. The proposed changes would reduce the rigor of **CRA** exams for 1,111 banks that account for more than **\$387** billion in **assets**.

The elimination of the investment and service tests for more than **1,100** banks translates into considerably **less** access to banking services and capital for underserved communities. For example, these banks would no longer be held **accountable** under **CRA** exams for investing in Low Income Housing Tax Credits, which have been a **major** source of affordable rental housing needed by large numbers of immigrants and lower income segments of the minority population. Likewise, the banks would no longer be held accountable for the provision of bank branches, checking accounts, Individual Development Accounts (IDAs), or debit card services. Thus, the effectiveness of the Administration's housing and community development programs would be diminished. Moreover, the federal bank agencies will fail to enforce **CRA's** statutory requirement that banks have a continuing and affirmative obligation to serve credit and deposit needs if they eliminate the investment and service test for a large subset of depository institutions.

Predatory Lending Standard

The proposed **CRA** changes contain an anti-predatory screen that will actually perpetuate abusive lending. The proposed standard states that loans based on the foreclosure value of the collateral, instead of the ability of the borrower to repay, can result in downgrades in **CRA** ratings. The asset-based standard falls **short** because it will not cover many instances of **predatory** lending. For example, abusive lending would not **result** in lower **CRA** ratings when it strips **equity** without leading to delinquency or foreclosure. In other words, borrowers can have the necessary **income** to afford monthly payments, but they **are still** losing wealth as a result of a lender's excessive fees or unnecessary products.

CRA exams will allow abusive lending if they contain the proposed anti-predatory standard that does not address the problems of the packing of fees into mortgage **loans**, high prepayment penalties, loan flipping, mandatory arbitration, and other numerous abuses. Rigorous fair lending audits and severe penalties

on **CRA** exams for **abusive lending** are necessary in order to ensure that **the** new minority homeowners served by the Administration are protected, but the proposed predatory lending standard will not provide the necessary protections,

In addition, an anti-predatory standard must apply to all loans made **by** the bank and all of **its** affiliates, not just real estate secured loans issued by the bank in **its** 'assessment area' as **proposed by** the agencies. By shielding banks from the consequences of abusive lending, the proposed standard will frustrate CRA's statutory requirement that banks serve low- and moderate-income communities consistent with safety and soundness.

Enhanced data disclosure

The federal agencies propose that they will **publicly** report the specific census tract location of small businesses receiving loans in addition to the current items in the **CRA** small business data for each depository institution. This will improve the ability of **the** general public to determine **if** banks are serving traditionally **neglected** neighborhoods with **small** business loans. **Also** the regulators propose separately reporting purchases from loan originations on CRA exams and separately reporting high cost lending (per the new HMDA data requirement starting with the 2004 data).

The positive aspects of the proposed data enhancements do not begin to make up **for** the significant harm caused by the first two proposals. Furthermore, the federal agencies are not utilizing the data enhancements in order to make CRA exams more rigorous. The agencies must not merely report the new data on CRA exams, but must use the new data to provide **less** weight on CRA exams to high cost loans than prime loans and assign less weight for purchases than loan originations.

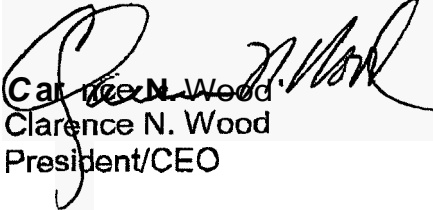
Missed Opportunity to Update Exam Procedures

The agencies also failed **to** close gaping loopholes in the **CRA** regulation. Banks **can** still elect to include affiliates on **CRA** exams at their option. They can thus manipulate their CRA exams **by** excluding affiliates not serving low and moderate-income borrowers **and** excluding affiliates engaged in predatory lending. The game playing with affiliates will end only if the federal agencies require that all **affiliates** be included on exams. Lastly, the proposed changes do not address the need to update assessment areas to include geographical areas beyond bank branches. Many banks make considerable portions **of** their loans beyond their branches; this non-branch lending activity will not be scrutinized by **CRA** exams.

The proposed changes to CRA will directly undercut the Administration's emphasis on minority homeownership and immigrant access to jobs **and** banking services. The proposals regarding streamlined exams and the anti-predatory lending standard threaten **CRA's** statutory purpose of the safe and sound provision of credit and deposit services. The proposed data enhancements

would become much more meaningful if the agencies update procedures regarding assessment areas, affiliates, and the treatment of high cost loans and purchases on CRA exams. CRA is simply a law that makes capitalism work for all Americans. CRA is too vital to be gutted by harmful regulatory changes and neglect. Thank you for your attention to this critical matter.

Sincerely,


Clarence N. Wood
President/CEO